

SHASTA COUNTY ASSESSMENT PRACTICES SURVEY

NOVEMBER 2012

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2012/048

November 9, 2012

TO COUNTY ASSESSORS:

SHASTA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Shasta County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Leslie Morgan, Shasta County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Shasta County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from November 2010 through February 2011. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mrs. Morgan and her staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum amount of funding, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Shasta County Assessor-Recorder's Office.¹

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Shasta County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Leslie Morgan, Shasta County Assessor-Recorder, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

¹ This review covers only the assessment functions of the office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Shasta County Assessor-Recorder's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with officials in other public agencies in Shasta County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2010-11 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

The assessor has improved the overall operation of the office. The following are a few examples of the improvements the assessor has made in Shasta County since the last survey:

- The assessor and her staff have developed an effective model for assessing properties with declining values in an accurate and timely manner.
- The assessor has taken steps to update the physical characteristics on property records, as well as on the sales records.
- The assessor has put time and effort into clean-up projects, such as making sure each property is identified with the correct neighborhood code and use code for better data management and making sure tax rate area boundaries are identified correctly, so each property has the appropriate tax rate.

Many of our recommendations concern portions of programs that are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, the assessor is effectively managing staffing, workload, and appraiser certification. However, we made recommendations for the improvement of the staff property and activities, assessment appeals, and exemptions programs.

In the area of real property assessment, the assessor has effective programs for change in ownership, declines in value, and California Land Conservation Act property. However, we made recommendations for the improvement of the new construction, Timberland Production Zone property, taxable possessory interests, and mineral property programs.

In the area of personal property and fixtures assessment, the assessor has effective programs for processing business property statements, as well as assessing business equipment, manufactured homes, and aircraft. However, we made recommendations for the improvement of the audit and vessels programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

The Shasta County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2010-11 assessment roll indicated an average assessment ratio of 100.32 percent, and the sum of the absolute differences from the required assessment level was 0.91 percent. Accordingly, the BOE certifies that Shasta County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

Following is a list of the formal recommendations contained in this report, arrayed in the order they appear in the text.

RECOMMENDATION 1:	Expand and enforce procedures for the assessment of staff-owned property.....	12
RECOMMENDATION 2:	Instruct applicants to return the withdrawal letter directly to the clerk of the assessment appeals board (AAB).	15
RECOMMENDATION 3:	Improve the administration of the church and religious exemptions by: (1) granting the church exemption only for religious worship and church parking, and (2) mailing church exemption claim forms and religious exemption notices prior to January 1 to people who received the exemptions in the previous year.	16
RECOMMENDATION 4:	Issue finding sheets to claimants if a portion of the property is denied the welfare exemption.....	18
RECOMMENDATION 5:	Conduct field inspections on all first-time filing claims and claims filed for new locations.	19
RECOMMENDATION 6:	Improve the administration of the disabled veterans' exemption program by: (1) requiring the claimant provide a copy of the original dated award letter from the USDVA, and (2) reviewing the award letter carefully to determine the effective date that qualifies the claimant for the exemption.	20
RECOMMENDATION 7:	Improve the new construction program by: (1) assessing all well bores and casings to land, and (2) documenting the source of costs used in the appraisal of new construction when using the cost approach.	29
RECOMMENDATION 8:	Improve the TPZ property program by: (1) periodically sending questionnaires to all owners of TPZ properties to discover nonexclusive compatible uses, and (2) using the correct discount rate when valuing TPZ land subject to rezoning.	33

RECOMMENDATION 9:	Improve the taxable possessory interest program by: (1) reappraising taxable possessory interests in compliance with section 61, (2) properly calculating supplemental assessments for taxable possessory interests, (3) correctly calculating the present value of the nontaxable reversionary improvements when using the cost approach to value taxable possessory interests, and (4) deducting allowed expenses from gross income when valuing taxable possessory interests by the direct income approach.....	36
RECOMMENDATION 10:	Improve the mineral assessment program by: (1) matching reserves to the time frame of the present value calculation, and (2) calculating the current market value of the appraisal unit to measure value declines.	38
RECOMMENDATION 11:	Improve the audit program by: (1) conducting a situs inspection when performing an audit, and (2) using a comprehensive audit checklist as a standard component of the audit.	42
RECOMMENDATION 12:	Improve the vessel assessment program by using Board-prescribed form BOE-576-D, <i>Vessel Property Statement</i>	49

OVERVIEW OF SHASTA COUNTY

Shasta County lies at the northern end of the Central Valley. The county encompasses approximately 3,850 square miles. Shasta County is bordered on the west by Trinity County, to the north by Siskiyou and Modoc Counties, to the east by Lassen County, and to the south by Plumas and Tehama Counties. Most of the county is mountainous, with elevations ranging from 430 feet at the city of Anderson to 10,027 feet at Lassen Volcanic National Park.

Shasta County is one of California's original 27 counties created in 1850 by the State Legislature. The county has a population of 177,223, concentrated in Redding, Anderson, Cottonwood, and Shasta Lake. Redding, the county seat, has a population of approximately 91,500; it is the state's largest city north of Sacramento. Redding is the center of trade and commerce, and it is a regional hub for education, professional services, and government.

The following table sets forth information pertinent to the 2010-11 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$4,583,049,537
	Improvements	\$9,671,813,826
	Personal Property	\$283,444,698
	Total Secured	\$14,538,308,061
Unsecured Roll	Land	\$53,895,123
	Improvements	\$235,083,622
	Personal Property	\$570,418,709
	Total Unsecured	\$859,397,454
Exemptions³		(\$545,608,221)
	Total Assessment Roll	\$14,852,097,294

³ The Homeowners' Exemption value is not included in the exemption value noted in this table.

The following table sets forth the change in assessed values over recent years:⁴

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2010-11	\$14,852,097,000	-5.0%	-1.9%
2009-10	\$15,632,073,000	-2.4%	-2.4%
2008-09	\$16,014,967,000	5.4%	4.7%
2007-08	\$15,198,060,000	9.5%	9.6%
2006-07	\$13,884,282,000	12.6%	12.3%

⁴ State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, workload, appraiser certification, staff property and activities, assessment appeals, and exemptions.

Budget and Staffing

The following table sets forth the assessor's gross budget and staffing numbers for recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	BUDGETED STAFF
2010-11	\$4,345,132	8.38%	40.5
2009-10	\$4,009,027	-8.47%	36.0
2008-09	\$4,380,017	5.62%	39.0
2007-08	\$4,146,949	17.78%	39.0
2006-07	\$3,520,812	-4.36%	41.0

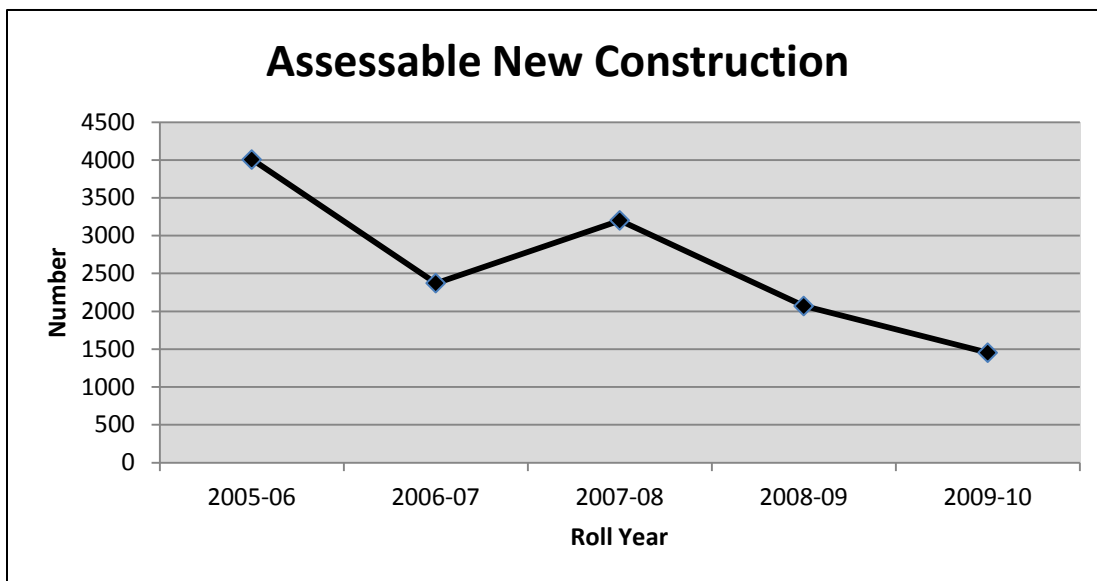
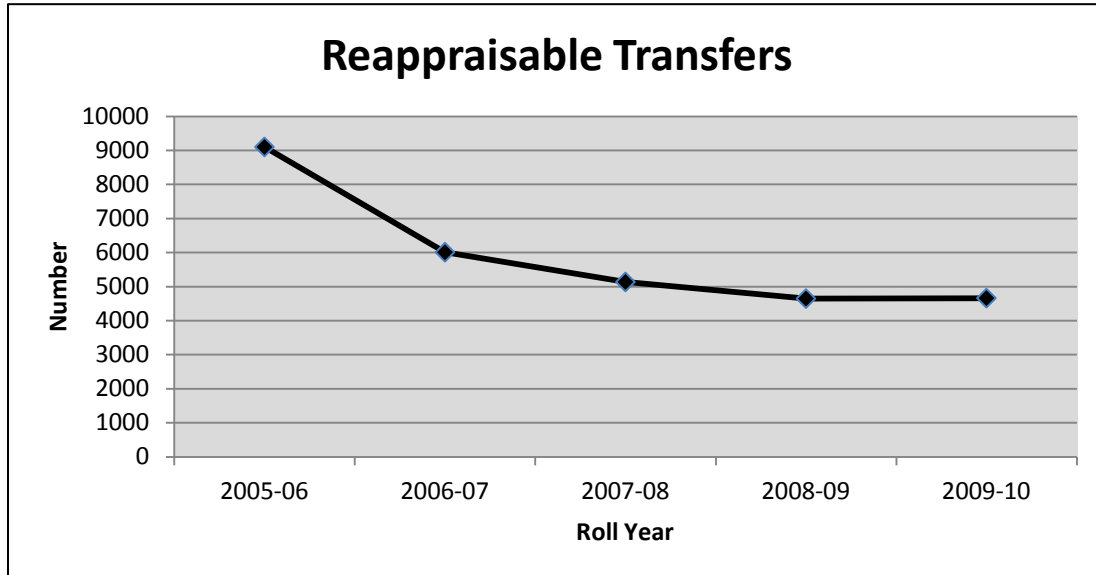
The number of assessor's staff has remained largely consistent four of the last five years. Presently, the office is budgeted for 40.5 staff members, including the assessor. Budgeted staff consists of the assessor, 2 deputy assessors, 1 program manager, 2 senior supervising real property appraisers, 1 senior supervising auditor-appraiser, 3 senior specialist real property appraisers, 10 real property appraisers, 4 auditor-appraisers, 2 mapping specialists, and 14.5 clerks.

Workload

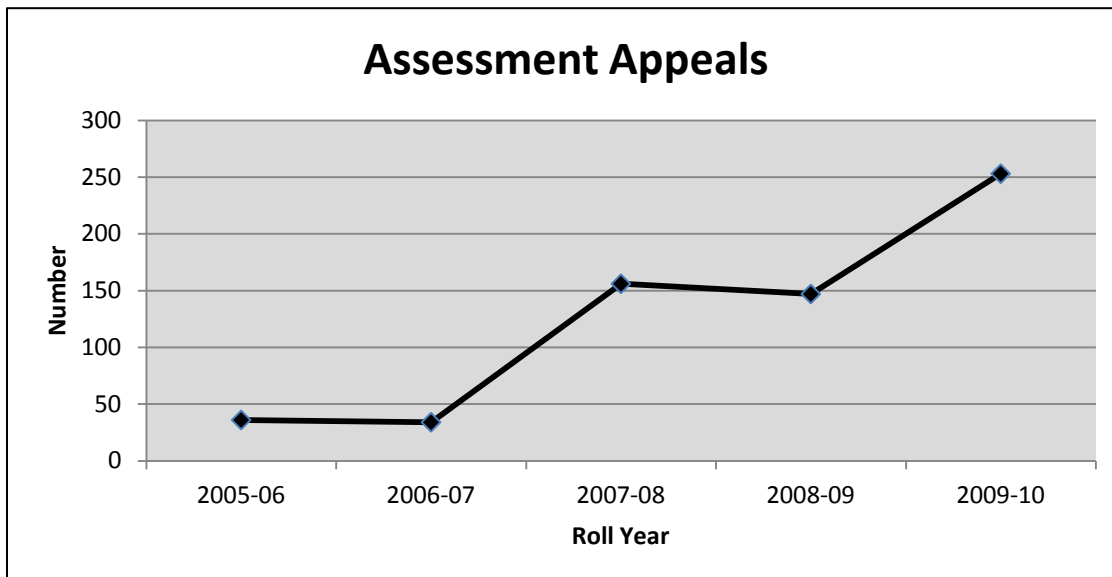
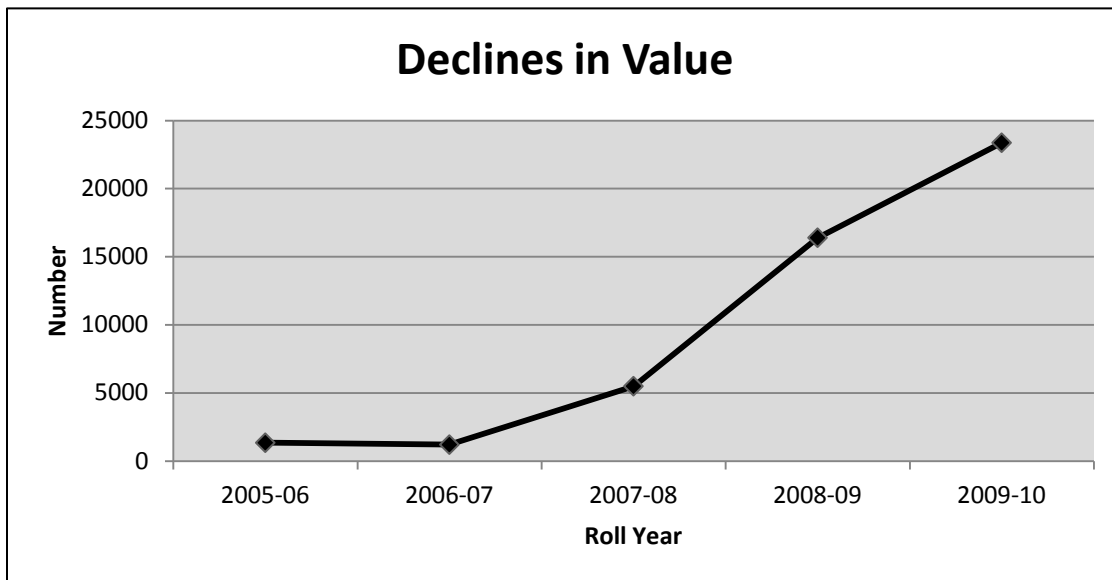
Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

While the total roll value has decreased each of the last two years, the gross budget has fluctuated, most recently showing an increase. The assessor's workload has seen a decline in the number of reappraisable transfers due to changes in ownership and assessable new construction. The following graphs illustrate these changes:



The decrease in workload for reappraisable transfers due to changes in ownership and assessable new construction has been offset by significant workload increases in the areas of declines in value and assessment appeals. The following graphs illustrate these changes:



Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are a total of 23 certified appraisers on staff, including the assessor; 18 hold advanced appraiser's certificates. We found that the assessor and her staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not currently use contract appraisers.

In Shasta County, the deputy assessor of valuation oversees the training and certification program for appraisers, and continuously tracks individual appraisal education utilizing BOE annual reports. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible. While Shasta County does not offer any financial incentive to obtain an advanced certificate, it is a requirement for promotion to Appraiser III.

According to the BOE report on training hours of certified staff, all appraisers are current in their continuing education hours.

Staff Property and Activities

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, *Statement of Economic Interests* (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

Form 700 is a state form on which state and local government officials and employees publicly disclose their personal assets and income that may be materially affected by their official acts. They also must disqualify themselves from participating in the decision-making process affecting their personal economic interests. For this purpose, Form 700 requests information regarding employee ownership in any real property within their employer agency's jurisdiction in which they, their spouse or registered domestic partner, or dependent children had a direct, indirect, or beneficial interest of \$2,000 or more during the reporting period, other than a residence used exclusively as a personal residence or an interest in real property held through a blind trust.

In Shasta County, all certified appraisers in the assessor's office are required to submit Form 700 annually. The forms are submitted to and maintained by the assessor's confidential administrative assistant. Annually, the assessor certifies to the BOE that she and her staff have complied with the requirements of section 672 by disclosing their financial interests.

The assessor has written procedures for the assessment of property owned by staff in her office and has a written conflict of interest policy. The assessor's procedures include the following clauses:

- Certified staff shall not take any action on their own or a close relative's property.
- All actions taken on a fellow employee's property will include a supervisory review.
- Staff shall disclose any assignment received that relates to any organization, property, or activity in which they or their immediate family have a financial interest.
- Staff shall not enter into any agreement to purchase real estate unless the agreement contains a statement notifying the other party in the transaction that they are an employee of the Shasta County Assessor-Recorder's Office; a copy of any such agreement shall be furnished to the assessor for inclusion in staff's personnel file; staff should discuss with the assessor if the purchase is of property not on the open market and where there is no broker involved.
- Staff is not allowed to bid on or purchase tax deeded properties.
- Speculation in real estate in Shasta County is discouraged.
- No changes to property records are allowed by anyone other than the assigned appraiser(s).
- Entries on appraisal records should never be "whited out."

In addition to the assessor's procedures, we reviewed the forms submitted related to financial or economic interests, as well as property files and assessments for property owned by the assessor and her staff. We found that the assessor is ever alert to potential conflicts of interest. However, the assessor's written procedures for the assessment of staff-owned property is limited and should be more inclusive.

RECOMMENDATION 1: Expand and enforce procedures for the assessment of staff-owned property.

The assessor's written procedures for maintaining the integrity of assessments of staff-owned property are very brief. The existing procedures do not include the consequences of violating the procedures or a provision to track and document all events with potential assessment implications for staff-owned property; procedures are explained, but there is no monitoring to ensure the procedures for these more sensitive assessments are followed. Additionally, we found the existing procedures, specifically the requirement for supervisory review of assessments on staff-owned property, are not consistently followed. The procedures need not be lengthy or complicated, but they should be expanded to address more areas of concern.

As stated in Letter To Assessors (LTA) No. 2008/058, Form 700 should not be solely relied upon to ensure assessment transactions involving staff-owned property are properly tracked and documented, because Form 700 is not filed by all employees, Form 700 does not require the reporting of all property owned by staff that is subject to property taxation within a county, such as boats and airplanes, and Form 700 does not require staff to report their personal residences. In LTA No. 2008/058, the BOE provides procedures considered noteworthy and appropriate for any size county. The procedures should: (1) clearly define the county's policies and procedures, (2) establish employees' responsibilities, (3) create a file or listing of all staff-owned property

within the county, (4) contain well-defined review procedures, and (5) include provisions for accurately tracking and documenting all events with potential assessment implications.

Assessors are encouraged to put procedures in place that will preclude even the appearance of improprieties. To ensure this, a tracking and monitoring system should be implemented.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

Shasta County has one assessment appeals board (AAB) that consists of three members and one alternate member. No hearing officers are used. All AAB members have completed the required training pursuant to section 1624.02.

The clerk is responsible for providing applications for assessment appeals to the public. Applications can be obtained from the clerk's office or through the county's website, but must be filed at the clerk's office. Electronically filed applications are not accepted. The filing period for assessment appeals in Shasta County is July 2 through November 30.

The following table sets forth the assessment appeals workload over recent years:

ASSESSMENT ROLL	2009-10	2008-09	2007-08	2006-07	2005-06
Appeals Filed	253	147	156	34	36
Appeals Carried Over From Prior Year	27	22	14 ⁵	8	21
Total Appeals Workload	280	169	170	42	57
Resolution:					
Withdrawn	63	116	127	26	36
Stipulation	123	2	5	2	10
Appeals Reduced	4	13	3	0	0
Appeals Upheld	9	3	3	4	2
Appeals Increased	0	0	0	0	0
Other Determination*	18	8	10	0	1
Total Resolved	217	142	148	32	49
To Be Carried Over**	63	27	22	10 ⁵	8

*Note: Includes, but not limited to, late-filed appeals, applicants' failure to appear, and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

When applications are received, the clerk reviews them for a signature, stamps the application with the date received, assigns a number to the application, checks the postmark for timely filing, enters the application information into a database, and forwards a copy to the assessor. The assessor facilitates the scheduling of hearings by forwarding a proposed schedule to the clerk for final approval. The clerk schedules the matter for hearing and notifies the applicant of the date, time, and place of the hearing by sending them a letter 60 days prior to the hearing date. In accordance with section 1605.6, the clerk ensures the applicant is notified no less than 45 days prior to the hearing. Assessment appeal hearings are held only once a year.

Appraisers and auditor-appraisers within each section are responsible for preparing and sometimes presenting appeals. The assigned appraiser or auditor-appraiser attempts to contact the applicant in an effort to try and resolve the issue prior to the scheduling of a hearing; the assessor believes that every attempt to contact the applicant and resolve the issue should be made before the matter goes before the AAB. If the applicant decides to withdraw the application prior to the hearing, they may do so by sending a letter to the clerk of the board. If the assessor and the applicant reach an agreement prior to the hearing, the assessor sends the applicant a withdrawal letter to sign and return to the assessor. If the agreement includes a changed value, details of the changed value are included in the withdrawal letter. Once the assessor receives the signed

⁵ In *A Report on Budgets, Workloads, and Assessment Appeals Activities* for 2007-08, the assessor reported the number of "Appeals Carried Over From Prior Year" as "14." The assessor also noted in the 2007-08 report that she had incorrectly reported in the 2006-07 report the number of appeals "To Be Carried Over" as "10" and that the number should have been reported as "14."

withdrawal letter from the applicant, the assessor forwards a copy of the withdrawal to the clerk and prepares any necessary roll corrections. On occasion, the assessor and the applicant agree to have the changed value stipulated before the AAB. In these instances, the assessor will send the applicant a stipulation, rather than a withdrawal, detailing the changed value. Both the applicant and the assessor sign the stipulation, which is then forwarded to the clerk for processing. Stipulations are scheduled for hearing to be reviewed and approved by the AAB. If the assessor and the applicant cannot reach an agreement, the appeals process continues and a hearing takes place.

During the survey, we were not able to attend an AAB hearing. However, we reviewed several records involving assessment appeals. We found the assessor's assessment appeals program to be well administered, and the records to be well documented and complete. However, we found one area in need of improvement.

RECOMMENDATION 2: Instruct applicants to return the withdrawal letter directly to the clerk of the assessment appeals board (AAB).

When the assessor and an applicant reach an agreement prior to an appeal being scheduled for hearing, the assessor sends the applicant a withdrawal letter instructing the applicant to sign and return the withdrawal letter directly to the assessor. According to the letter, by signing and returning the letter to the assessor, the applicant has agreed to the value indicated in the letter and has agreed to withdraw the appeal. The letter further states the assessor will forward a copy of the signed withdrawal letter to the clerk of the board.

The AAB is an independent entity, whose function is to resolve value disputes between taxpayers and the assessor. Therefore, it is inappropriate for the assessor to act as an intermediary between this board and taxpayers by requesting taxpayers to submit withdrawal forms to the assessor.

The assessor's procedure could give an appearance that the assessor is intervening in the independent third-party review to which every appellant has the right. The assessor should revise the withdrawal letter to instruct the applicant to submit the request for withdrawal directly to the clerk of the board rather than the assessor's office. The clerk of the board should then timely forward a copy of the withdrawal letter to the assessor.

Exemptions

For the exemptions portion of the Shasta County survey, we reviewed a sampling of church, religious, welfare, and disabled veterans' exemptions. The exemptions program in Shasta County is administered by two staff members: one support staff and the program manager of roll production.

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship when such property is owned or leased by a church. Property that is reasonably

and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The following table sets forth religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2010-11	200	\$114,141,646	18	\$4,680,541
2009-10	240	\$114,242,488	28	\$5,705,630
2008-09	208	\$108,515,027	18	\$4,858,530
2007-08	205	\$104,287,756	21	\$6,670,759
2006-07	205	\$99,396,637	19	\$5,476,635

We reviewed a number of church and religious exemption claims and discovered a few areas where improvement is needed.

RECOMMENDATION 3: Improve the administration of the church and religious exemptions by: (1) granting the church exemption only for religious worship and church parking, and (2) mailing church exemption claim forms and religious exemption notices prior to January 1 to people who received the exemptions in the previous year.

Grant the church exemption only for religious worship and church parking.

The assessor is granting the church exemption on property for uses other than religious worship and church parking. During our review of records, we found instances in which the church exemption was granted on property used for an emergency food program, church offices, storage, and a garage. Section 206 provides for the church exemption on property used exclusively for worship purposes, and section 206.1 provides for the exemption of church parking. The assessor is granting the church exemption on property used outside the scope of these statutes.

Mail church exemption claim forms and religious exemption notices prior to January 1 to people who received the exemptions in the previous year.

The assessor mails the church exemption claim forms and religious exemption notices after January 1 each year to people who received the exemptions for the previous fiscal year. Section 256(b) provides that each year before the lien date, county assessors shall mail a claim form for the church exemption to all recipients of such exemption in the prior year. In addition, section 257.1 provides that the assessor shall annually, prior to the lien date, mail a notice to every person who received the religious exemption for the previous fiscal year. The assessor's practice of mailing the forms and notices after January 1 is not in compliance with statute and may not provide a sufficient amount of time for claimants to complete the form or notice and timely file it with the assessor.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table sets forth welfare exemption data for recent years:

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2010-11	286	\$304,063,385
2009-10	299	\$443,021,627
2008-09	297	\$424,925,140
2007-08	271	\$388,833,849
2006-07	315	\$378,431,365

The assessor requires organizations filing for the first time to provide a copy of the OCC or SCC. The assessor reviews the certificates received with the claim to determine the fiscal year the claimant is first eligible. If the claimant does not provide a copy of the certificate, the claim is placed in a pending file until a copy of the certificate is received. The assessor does not grant an exemption until a copy of the certificate is received.

We reviewed a number of welfare exemption claims and discovered an area where improvement is needed.

RECOMMENDATION 4: Issue finding sheets to claimants if a portion of the property is denied the welfare exemption.

We found the assessor issues a finding sheet when a claim for the full welfare exemption is denied. However, the assessor does not issue finding sheets for property granted only a partial welfare exemption. Section 254.5(c)(2) provides that if the assessor finds the claimant's property ineligible for the welfare exemption, the assessor must notify the claimant in writing of that finding. The assessor must also provide notification that the claimant may seek a refund of property taxes by filing a claim for refund with the county board of supervisors. If the claim for refund is denied, the organization may file a refund action in superior court. When the assessor does not issue a finding sheet to claimants when a portion of the property is denied the exemption, the assessor is not providing proper notification to the claimant.

Field Inspections for Church, Religious, and Welfare Exemptions

Section 256(a) provides that the affidavit for church exemption shall show that the building and equipment are used solely for religious worship. In addition, section 257(a) provides that any person claiming the religious exemption shall submit to the assessor an affidavit giving specific information relating to property tax exemption; the affidavit shall show that the building, equipment, and land are used exclusively for religious purposes. Finally, section 259.5 provides that the claim for the welfare exemption shall show that the property use requirements entitling the property to the exemption are met.

To verify the use of property as reported by the claimant on the church, religious, or welfare exemption claim, the assessor should conduct a field inspection of the property. For example, in reference to the welfare exemption, Assessors' Handbook Section 267, *Welfare, Church, and*

Religious Exemptions (AH 267), states that the assessor is to conduct a field inspection of the property on which an exemption is claimed for the first time.

We reviewed exemption claim files and property records to determine if the assessor conducts field inspections on new claims. The exemption claims are primarily maintained by claim year filed. This filing system created difficulty in verifying whether or not field inspections were conducted by the assessor. In some cases, a field inspection was attached to the claim, and in other cases, evidence of a field inspection was located with the appraisal property record. The assessor is in the process of changing the filing system by filing claims based on the name of the claimant. Although the assessor implemented a procedure in 2007 to conduct field inspections for all first-time filing claims and claims for added locations, we found that improvement is still needed.

RECOMMENDATION 5: Conduct field inspections on all first-time filing claims and claims filed for new locations.

We found the assessor does not conduct field inspections for all first-time filing claims and claims filed for new locations. The assessor should conduct a field inspection on all property for which an exemption is claimed for the first time as directed in AH 267. A field inspection is essential to ensure that the property use meets exemption requirements and to determine what portion of the property is eligible for exemption. Although the assessor is not required by statute to conduct a field inspection on all new exemption claims, the assessor's failure to conduct field inspections on these new claims may result in an improper exemption of property.

Disabled Veterans' Exemption

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both of these amounts are adjusted annually by a cost of living index.

The disabled veterans' exemption at the \$100,000 basis requires a one-time filing, while the low-income exemption at the \$150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The assessor processed 785 disabled veterans' exemption claims for the 2010-11 roll year, an increase of 17.5 percent over the past five years, with a 33.5 percent increase in exempted values during the same time frame.

The following table sets forth disabled veterans' exemption data for recent years:

ROLL YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2010-11	785	\$82,753,860
2009-10	759	\$79,880,444
2008-09	732	\$74,520,538
2007-08	712	\$70,159,902
2006-07	668	\$61,980,986

We reviewed a number of exemption files, which were primarily new claims filed in 2008, 2009, and 2010. In our review, we discovered the assessor created a useful cover sheet to summarize and note pertinent information in determining the eligibility date of the exemption, appropriate proration of the exemption, and timeliness in filing the claim.

Staff's responses to our questions regarding the provisions of the disabled veterans' exemption displayed a good understanding and knowledge of the statutes. A review of the files supported this fact, confirming this program is well administered; however, we found areas regarding the veterans' disability award letter issued by the United States Department of Veterans Affairs (USDVA) that could be improved upon.

RECOMMENDATION 6: Improve the administration of the disabled veterans' exemption program by: (1) requiring the claimant provide a copy of the original dated award letter from the USDVA, and (2) reviewing the award letter carefully to determine the effective date that qualifies the claimant for the exemption.

Require the claimant provide a copy of the original dated award letter from the USDVA.

We found that in some cases the assessor relied on a one-page summary letter from the USDVA to determine whether or not the claim for exemption was timely filed. While this one-page letter provides proof of the qualifying conditions for the exemption, the date of the letter should not be used as the date the USDVA first provided the disability award letter to the veteran. The letter is instead a duplicate letter certifying the veteran's disability and will many times indicate an effective disability date several years prior to the actual date of the letter, suggesting to the assessor that the rating was delayed. When a rating from the USDVA is "delayed," section 276.1 provides for the timely filing of a claim if the claimant files for an exemption on or before the lien date of the following year after the claimant became eligible. Since the original award letter may have been issued on an earlier date, the assessor needs to verify all the pertinent dates in granting the exemption. Reliance upon the summary letter as the notification date of the veteran's disability may lead the assessor to grant full exemption based on a timely claim filing when late-filing penalties may actually be warranted, resulting in a loss of revenue to the county.

Review the award letter carefully to determine the effective date that qualifies the claimant for the exemption.

We also found that in some cases the assessor used an incorrect effective qualifying date of the disability, even though a copy of the original USDVA letter was submitted. In one case, by using the incorrect date, the claimant was denied a prorated exemption of four months to which he was entitled, and in another case, the claimant was granted the exemption eight months prior to his effective date, which is a loss of revenue to the county.

Section 276.1(b) states, "Subject to the provisions regarding cancellations and the limitations periods on refunds, the disabled veterans' exemption applies beginning on the effective date, as determined by the USDVA, of a disability rating that qualifies the claimant for the exemption." The assessor should ensure that the effective date used for the exemption is the actual date the claimant qualifies for the exemption to stay in compliance with applicable statutes and to avoid inconsistent treatment of taxpayers.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, Timberland Production Zone property, taxable possessory interests, and mineral property.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of change in ownership.

The assessor maintains staff procedures for processing changes in ownership. Currently, the change in ownership division consists of two mapping transfer clerks.

Document Processing

The assessor's primary means of discovering properties that have changed ownership is through the analysis of deeds and other recorded documents. The following table sets forth the total number of recorded documents that resulted in reappraisable transfers in Shasta County in recent years:

ROLL YEAR	REAPPRAISABLE TRANSFERS
2009-10	4,662
2008-09	4,648
2007-08	5,137
2006-07	6,010
2005-06	9,102

The assessor also functions as the county recorder. The assessor-recorder requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents submitted for

recording transferring ownership of real property. If a transfer document is received without a PCOR, the assessor-recorder adds \$20 to the recording fee. In addition, to facilitate accurate property identification, a local ordinance requires the assessor's parcel number (APN) to be indicated on all recorded documents involving real property.

Recorded documents are sent electronically from the recorder's office to the assessor's office. In addition, the recorder's office sends hard copies of the recorded documents to the assessor's staff. A mapping transfer clerk reviews the recordings to verify the legal description, confirm prior ownership, and determine whether the transfer constitutes an assessable event. If any additional information is required, the mapping transfer clerk is responsible for sending the appropriate letter or form to the property owner. The mapping transfer clerks check each other's work for accuracy. Once this information is verified, the clerk inputs the information from the document into the computer system.

The assessable events are placed in an unworked bin and flagged in the assessment system and on the file. A blue flag is for change in ownership. Appraisers pull files for their assigned areas from the bin for valuation. The completed valuation goes to a supervisor for review; clerical staff enters data into assessment system. The typical time frame from recordation to valuation is two months.

We examined several recorded documents and found the assessor has an effective program for the discovery and determination of assessable events.

Penalties

Upon deed recordation, if a PCOR is not filed with the recorded document, the mapping transfer clerk processes the file and distributes it to the appraiser. Upon request by the appraiser, the mapping transfer clerk sends BOE-502-AH, *Change in Ownership Report* (COS), to the taxpayer. A log is maintained to track the final deadline for the property owner to file a COS before a penalty applies and the penalty letter is sent.

We examined several files where COSs were sent to taxpayers and found the assessor has an effective program for tracking their return and applying penalties where applicable.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The list is accessible via the computers the assessor has available for the public in the lobby. In compliance with section 408.1(b), the transfer list is divided into geographical areas by book number or address. The transfer list is updated continuously through the assessment system. In compliance with section 408.1(c), the transfer list contains the names of the transferee and transferor, the APN, the event date, the recorded document number, the situs address, and the documentary transfer tax (consideration paid), if available. The assessor observes the confidentiality provisions of section 481, which precludes the disclosure of information on a PCOR or COS.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and any entities under its ownership control. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and, hence, either do or do not constitute a change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors, because ordinarily there is no recorded document evidencing a transfer of an ownership interest in a legal entity.

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.⁶ The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

The assessor discovers potential changes in control or changes in ownership of legal entities from news articles, business property statements, commercial appraisers, word of mouth, and monthly LEOP reports from the BOE.

When the assessor receives the monthly LEOP reports, the transfer staff reviews the effective date and what change(s) occurred. The parcels reported that are located within Shasta County are checked against the assessor's database and a name check is also performed to determine if any other parcel in the county may be affected.

Our review of several records showed the assessor does a satisfactory job in reviewing LEOP reports and reassessing all property interests identified on BOE-100-B. The assessor also reviews any additional properties owned by the entity not reported on the form. In recent years, the assessor has not had to apply a penalty, since they have not received any late filings of BOE-100-B.

⁶ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first \$1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. Even if an assessor opts not to report quarterly to the BOE, however, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website. The following table sets forth section 63.1 claims filed in recent years:

ROLL YEAR	SECTION 63.1 CLAIMS FILED
2009-10	485
2008-09	578
2007-08	466
2006-07	455
2005-06	287

If a PCOR or COS indicates a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren), the assessor is proactive in notifying taxpayers of a possible exclusion. The assessor sends interested parties a claim form along with a letter explaining the exclusion; the form is tracked in the assessment system. If there has been no reply within 30 days, the property is reappraised.

The assessor reviews all section 63.1 applications and determines if the exclusion will be granted or denied. If a claim is denied, the taxpayer is notified by receipt of the supplemental assessment notice. Pursuant to section 63.1(i), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a locked and secure area not accessible to the public.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property in Shasta County has exceeded the limit. If multiple properties transfer within a short period, the assessor allows the property owner or representative to determine

which properties to exclude and which to reassess. If parcels exceeding the limit are in counties other than Shasta County and the transfer dates are the same or within a short period, the assessor contacts the property owner to determine how they would like to have the excess allocated and reassessed. The assessor does not contact the other counties listed in the report to coordinate the exclusion. While this is not a requirement, the assessor may find that contacting and coordinating this process with the other counties involved could be a useful tool in establishing which property to exclude and which to reassess when tracking properties exceeding the \$1 million limit.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Shasta County does not accept base year value transfers from other counties. The following table sets forth section 69.5 claims filed in recent years:

ROLL YEAR	SECTION 69.5 CLAIMS FILED
2009-10	18
2008-09	42
2007-08	69
2006-07	51
2005-06	78

If a PCOR or COS indicates a transfer may involve a base year exclusion, the assessor sends interested parties a claim form along with a letter. The program manager reviews all submitted claims. Appraisers determine the fair market value of both the replacement and original properties. If the claim is denied, the assessor informs the taxpayer by letter.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on the claim form by scanning all forms into the computer system and allowing only authorized personnel to access the information. Claim forms are not available for public viewing.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. The assessor has instituted a document scanning program that allows staff to verify that past section 69.5 exclusion claims have not previously been filed in the county. Along with utilization of the BOE's *Duplicate SSN Report*, the assessor has an efficient program for tracking duplicate claims.

Valuation

Once a transfer has been determined to be an assessable event, the information is sent to an appraiser for valuation. Every assessable transfer is reviewed to confirm that the listed sale price accurately reflects market value; the sale price is not automatically enrolled. Residential changes in ownership are valued using the comparative sales approach, while commercial changes in ownership are valued using the income approach. If the property is unique, the cost approach may be considered, as well. Field inspections are performed on all properties experiencing a change in ownership or new construction.

We reviewed several files and found the assessor has an effective program for valuing property in the county.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c) and (d), and sections 73 through 74.7 address these exclusions.

Discovery

The assessor's primary means of discovering assessable new construction is through building permits. Currently, the assessor receives building permits from four permit-issuing agencies: the Shasta County Department of Resource Management, the City of Anderson Building Department, the City of Redding Building Department, and the Shasta Lake City Building and Planning Department. Other methods used to discover new construction include newspaper articles, business property statements, and field canvassing.

The following table sets forth the number of permits received and the number of those permits that resulted in new assessments in recent years:

ROLL YEAR	PERMITS RECEIVED	NEW ASSESSMENTS
2009-10	5,073	1,453
2008-09	6,386	2,070
2007-08	7,340	3,202
2006-07	8,398	2,373
2005-06	9,347	4,006

The Shasta County Department of Resource Management is the issuing agency for building, well, septic, grading, and encroachment permits in unincorporated areas. The Building Division assists with permits for structures, while the Environmental Health Division assists with well, septic, and grading permits. The Shasta County Department of Public Works assists with encroachment permits for private roadways connected to paved county roads. All of these county divisions or departments assist the Shasta County Department of Resource Management with the entire permitting process, including final inspections and issuing certificates of occupancy for completed new construction. Copies of finalized permits and certificates of occupancy are provided to the assessor.

Valuation

Assessment clerks review and cull incoming permits. When assessment clerks cannot decide whether or not a permit is for assessable new construction, an appraiser makes the culling determination. Permits for assessable new construction are scanned into the imaging portion of the assessment system and tracked through completion. Digital floor plans are prepared based on plans and revised as needed after field inspections. Field inspections are conducted for all new construction except for wells and septic systems and new construction with a permit value under \$75,000. Self-reporting questionnaires are mailed to property owners upon completion of miscellaneous new construction with a permit value under \$75,000.

When new construction is finished, the completion date is noted in the assessment system and emailed to the appraiser's unworked list for posting on the property record. Appraisers determine a base year value and produce a worksheet that is sent to the clerical staff for data entry and issuance of supplemental assessments. Appraisers typically use the cost approach to value new construction; however, strong consideration is given to the comparative sales approach to account for entrepreneurial costs. Agricultural well bores and casings are properly assessed to the land.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll CIP at fair market value. This process continues until the new construction is complete. At that

time, the new construction is assessed at fair market value and a base year value is assigned. The assessor reviews all CIP as of each lien date and assigns new costs to the completed portion of the new construction.

We reviewed several properties with examples of recently completed new construction or CIP and found the assessor's program for the assessment of new construction to be well administered and the values to be reasonable. However, we found two areas where improvements can be made.

RECOMMENDATION 7: Improve the new construction program by: (1) assessing all well bores and casings to land, and (2) documenting the source of costs used in the appraisal of new construction when using the cost approach.

Assess all well bores and casings to land.

Although the assessor properly assesses agricultural well bores and casings to the land, she incorrectly assesses domestic well bores and casings to the improvements. Rule 124 provides that wells are land. By not properly assessing domestic well bores and casings to the land, the assessor is underassessing the land and overassessing the improvements.

Document the source of costs used in the appraisal of new construction when using the cost approach.

When using the cost approach to value new construction, we found the assessor does not document the source of those costs on the property record. Often, the specific new construction costs appear as rounded numbers on the property record without reference to the particular cost guide used or its date of issue. Based on our review of Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Marshall & Swift, *Residential Cost Handbook*, and Marshall & Swift, *Marshall Valuation Service*, the unit costs used by the assessor do not appear to correlate with accepted published sources of cost data.

Proper application of the cost approach requires appraisers to document the source of costs used in their appraisals. The practice of entering unsubstantiated costs can lead to improper valuation of partially completed or completed new construction. Proper documentation not only facilitates appraisal review, but also provides the means with which to defend values.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.

The assessor has been very proactive in attempting to identify properties in the county with a current market value lower than its FBYV. For the 2010-11 roll year, the assessor reviewed approximately 51,000 properties for a potential decline-in-value assessment. Of that number, she

reduced the assessment on 23,375 parcels or about 24 percent of all secured assessments in the county. The total reduction in assessed value for the 2010-11 assessment roll from the prior roll was \$2,110,683,718.

The following table sets forth the number of decline-in-value assessments for recent years:

ROLL YEAR	DECLINE-IN-VALUE ASSESSMENTS
2009-10	23,375
2008-09	16,400
2007-08	5,496
2006-07	1,205
2005-06	1,345

An informational pamphlet explaining the decline-in-value assessment review process is available to taxpayers on the assessor's website, as well as at the public counter in the office. Request forms are available online and at the public counter for taxpayers to request a review of their property's assessed value. Taxpayers may also call and request a review of their property's assessed values. All taxpayers who request a review of their assessed values are informed of the assessment appeals process and the deadlines for filing such an appeal. Both written and telephone requests are tracked by the assessor to ensure that the assessment reviews are completed and the property owners are properly notified of the results.

In her decline-in-value review of residential properties for the 2010-11 roll year, the assessor identified all sales and transfers that occurred within the time period from January 1, 2001 to December 31, 2009. Information such as sale date, property characteristics, and FBVVs on these sales and transfers were extracted and exported onto a spreadsheet by neighborhood code. Properties on which requests for review were received were integrated into the spreadsheet.

Appraisers review the properties according to their geographic area of responsibility. The appraisers determine the current market value for each residential property using the sales comparison approach to value. The resulting current market value is compared to the property's FBV and the lower of the two was enrolled. The proposed values are noted on the spreadsheet, as well as on the property's appraisal record. Any changes or updates to property characteristics discovered during the review are noted on the spreadsheet to be input in the database at a later date. For properties located in a homogeneous neighborhood, the assessor reduced the value of all properties in the neighborhood that are similar to the subject property if warranted.

Commercial properties, such as retail, industrial, and office buildings, were also reviewed by the assessor for declines in value. The assessor, as with residential properties, identified all sales and transfers of these properties within the January 1, 2001 to December 31, 2009 time period and created spreadsheets for the commercial appraisers to use. Approximately 1,200 commercial properties were identified. The assessor sent a letter to the property owners explaining the decline-in-value review process and asking the owners to provide current income and expense data to assist in the valuation review. Approximately 400 property owners responded to the

assessor's request for information. The income and expense information received from the letters was compiled into a database that the appraisers used in determining the current market value for commercial properties.

When the assessor determines no reduction in value is warranted, she sends a letter informing them there is no change in assessed value for the current roll. The letter also explains the taxpayer's right to file an assessment appeal if they disagree with the assessor's determination. The assessor sends a value notice for properties receiving a decline-in-value assessment for the first time, properties receiving an additional reduction from a prior year's decline-in-value assessment, properties receiving a partial restoration of their FBV, and properties having their FBV fully restored. The value notice contains all of the required elements as provided in section 619, including FBV, proposed new values, information on taxpayers' right to appeal, and an explanation of the stipulation process set forth in section 1607.

Properties in decline-in-value status are assigned an appraisal code in the assessment system to prevent the application of the annual inflation factor until the FBV is fully restored. For subsequent lien dates, the assessor reviews properties in decline-in-value status and enrolls either the current market value or restores the FBV.

The assessor has an efficient program in place to identify and assess properties with declining values.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, for example, hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

The Shasta County Board of Supervisors passed Resolution 69-9, authorizing the implementation of the CLCA, effective as of January 13, 1969. For the 2010-11 roll year, Shasta County had 672 parcels encumbered by 150 CLCA contracts, totaling approximately 189,247 acres with a total assessed value of land and improvements of \$75,803,590. Shasta County does not have Farmland Security Zone contracts.

Most of the rural property in Shasta County is used for livestock grazing, with smaller, more adaptable areas improved with fruit, nut, vines, and strawberry crops. Although agricultural

production has declined somewhat over the last few years, the county surpassed \$69 million in gross production value of agricultural commodities in 2009. This represented a decrease of approximately 7 percent from 2008. The decrease in agricultural revenues can be most attributed to the lower prices received for various crops and nursery stock, along with the overall downturn in the economy.

Discovery

CLCA property is usually discovered by a recorded document, but much of the information needed to value the property must be obtained from the property owner. To this end, the assessor periodically sends agricultural questionnaires to CLCA property owners.

Valuation of CLCA Property

The valuation of CLCA property in Shasta County, including related changes in ownership and new construction, is the responsibility of the deputy assessor in charge of valuation. In determining the value to enroll for CLCA property, the assessor must make a three-way comparison between market value, restricted value, and factored base year value. The assessor clearly documents and compares these three values in determining the lowest value to enroll.

The deputy assessor includes compatible use income when valuing restricted property. Allowable compatible uses contribute income and enhanced value to restricted land. Uses such as fish farms, hunting clubs, and power generating wind turbines contribute value to the restricted land without disrupting the underlying restricted use.

The assessor correctly values homesites in accordance with section 428 and issues supplemental assessments on unrestricted portions of CLCA properties when appropriate.

Income and expenses are derived from a market analysis performed by the deputy assessor, who utilizes data from the Shasta County crop report, questionnaires from property owners, and other published data. The assessor values restricted grazing land based on the cash rent the land would most likely receive based on the land's current use. These rents vary based on the quality and production capability of the land.

The deputy assessor utilizes capitalization rates that include the current interest component provided annually by the BOE, as well as components for risk and property taxes. The deputy assessor considers a wide range of data in determining risk rates for the different crops restricted by the Williamson Act.

The assessor has an organized program in place to value these properties.

Timberland Production Zone Property

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435).

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed similar to all other real property.

For the 2010-11 roll year, Shasta County had 1,967 TPZ parcels, comprising 613,850 acres with a total assessed value of \$51,591,822.

The assessor has well written policies and procedures dealing with the assessment of TPZ lands. All land zoned TPZ is appropriately identified on the assessment roll with the notation "TPZ," in conformance with section 433.

The assessor values all TPZ properties pursuant to the timberland value schedule approved annually by the BOE. This schedule determines per-acre values by region and timber site classification. TPZ properties in Shasta County are classified as the "Pine-Mixed Conifer Region" and are valued using the five different site classifications. Our review of several TPZ parcels shows the assessor follows the BOE's timberland value schedule correctly and updates the information annually.

Compatible uses were found to exist on several TPZ parcels, primarily grazing leases whose values are enrolled annually at the lesser of fair market value or factored base year value in addition to the TPZ land values. We reviewed several TPZ parcels with nonexclusive compatible uses and found the assessor valued these parcels correctly.

Homesites, residences, and other structures on TPZ land are not restricted or subject to TPZ restrictions. In accordance with the provisions of article XIII A, they are valued at their factored base year value or current market value, whichever is less. We reviewed several TPZ parcels with homesites, residences, and structures and found that these properties were valued correctly.

We found two areas involving the TPZ program needing improvement.

RECOMMENDATION 8: Improve the TPZ property program by: (1) periodically sending questionnaires to all owners of TPZ properties to discover nonexclusive compatible uses, and (2) using the correct discount rate when valuing TPZ land subject to rezoning.

Periodically send questionnaires to all owners of TPZ properties to discover nonexclusive compatible uses.

The assessor currently has no formal procedures, such as field reviews of TPZ properties or sending questionnaires to owners of TPZ properties, to discover nonexclusive compatible uses. Section 435(a) requires the assessor to value timberland according to the site value schedules pursuant to section 434.5 and to value any compatible, nonexclusive uses of the land. Nonexclusive compatible uses may include grazing, hunting, fishing, camping, mining, watershed management, and fish and wildlife habitat.

The value of nonexclusive compatible uses must be determined annually and added to the site class values for the timberland. Not discovering such uses could lead to an underassessment of TPZ properties.

Use the correct discount rate when valuing TPZ land subject to rezoning.

While reviewing worksheets for TPZ properties subject to rezoning and nonrenewal of the 10-year contract, we discovered that the assessor uses a discount rate that includes a tax component of 1.0 percent and a risk component of 0.5 percent added to the annual Board-announced interest rate. According to section 426(c)(4) and the *Timber and Timberland Values Manual*, the discount rate to be used to value land subject to rezoning is only the interest rate announced by the Board and does not contain the risk and tax components that are included in the open-space capitalization rate. Using a higher discount rate typically leads to an underassessment of TPZ properties subject to rezoning.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For the 2010-11 roll year, the assessor enrolled 1,357 taxable possessory interests with a total assessed value of \$140,822,808.

The following table lists the distribution of these assessments:

TYPES OF TAXABLE POSSESSORY INTERESTS	NUMBER OF ASSESSMENTS	ASSESSED LAND VALUE	ASSESSED IMPROVEMENT VALUE
Summer Homes (8001)	211	\$978,076	\$12,233,031
Government Housing (8002)	37	\$76,800	\$407,700
Mining Claims (8003)	48	\$2,717,182	\$267,863
Grazing Permits (8004)	14	\$137,150	\$0
Lake Resorts – Marinas (8005)	14	\$2,851,784	\$15,454,350
Boat Docks and Clubs (8006)	2	\$73,786	\$374,088
Airport (8007)	242	\$2,518,919	\$6,923,659
Miscellaneous (8008)	170	\$33,628,307	\$55,494,913
USFS – Houseboat Permits (8009)	619	\$6,685,200	\$0
Total	1,357	\$49,667,204	\$91,155,604

The assessor assesses taxable possessory interests on both the secured and unsecured rolls. Taxable possessory interests are identified on the assessment roll by having an assessment number with an "860" prefix. The parent fee parcel is also noted on the assessor's inquiry screen for the "860" assessments. Ownership information on the fee parcels list the specific local, state, or federal agency that owns the parcel along with the mailing address and contact information. The assessor also assesses a number of government-owned improvements that are leased to private users. These taxable possessory interests are assigned an account that begins with an "850" prefix.

There are a number of real property appraisers and one auditor-appraiser responsible for the assessment of taxable possessory interests. The auditor-appraiser is responsible for the assessment of the rights to use publicly owned lakes and reservoirs by owners of houseboats holding permits issued by the public owner. The assessor has an informational pamphlet available on her website and at the public counter to assist taxpayers and the public in understanding what constitutes a taxable possessory interest and how they are valued.

Shasta County has a low-value property exemption resolution that exempts real and personal property with a base year value that does not exceed \$2,000. The resolution also exempts temporary and transitory uses in a publicly owned fairground, fairground facility, convention center, or cultural facility with a value that does not exceed \$15,000. A review of taxable possessory interest values for the 2010-11 assessment roll showed the assessor properly exempted those properties with a value at or below the low-value threshold.

To assist in the discovery of taxable possessory interests, the assessor annually mails BOE-502-P, *Possessory Interests Annual Usage Report*, to all public agencies owning property in the county. Returned reports are reviewed to determine if there have been any changes to existing users, such as termination of use, change in ownership, renewal, or assignment of the taxable possessory interest since the last lien date.

We reviewed a number of taxable possessory interest files of various uses and found the assessor used the stated term as the term of possession and revalued them each year using a declining term, and issued supplemental assessments where appropriate. For cable television taxable possessory interests, the assessor valued these interests in accordance with section 107.7 by capitalizing the franchise fee.

In our review of the assessor's program for the assessment of taxable possessory interests, we found a number of areas in need of improvement.

RECOMMENDATION 9: Improve the taxable possessory interest program by:
(1) reappraising taxable possessory interests in compliance with section 61, (2) properly calculating supplemental assessments for taxable possessory interests, (3) correctly calculating the present value of the nontaxable reversionary improvements when using the cost approach to value taxable possessory interests, and (4) deducting allowed expenses from gross income when valuing taxable possessory interests by the direct income approach.

Reappraise taxable possessory interests in compliance with section 61.

We found the assessor does not reappraise taxable possessory interests at the end of the anticipated term of possession used to value the taxable possessory interest. For taxable possessory interests without a stated term of possession, the assessor uses a rolling term of possession. For example, if the assessor assigns a taxable possessory interest an anticipated term of three years, the initial value is based on that three-year term of possession. For the next lien date, the assessor once again values the taxable possessory interest using the same three-year term of possession.

Section 61 provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax-exempt real property for any term. Section 61(b)(2) provides that, for renewals, the assessor shall, at the end of the initial term of possession used by the assessor, establish a new base year value based upon a new reasonably anticipated term of possession. By not revaluing possessory interests as provided in section 61(b)(2), the assessor has incorrectly valued these rights.

Properly calculate supplemental assessments for taxable possessory interests.

We reviewed a number of taxable possessory interest appraisals that were performed due to a change in ownership. We found that in each case the assessor correctly enrolled a base year value and issued a supplemental assessment. However, the assessor improperly offset the new base year values against the existing roll values when calculating the amounts of the supplemental assessments and, in some instances, issued negative supplemental assessments.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction. According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll when one taxable possessory interest is terminated during an assessment year and a second (but distinct) taxable possessory interest is created involving the same land and improvements during the same assessment year.

The assessor's failure to properly calculate supplemental assessments is contrary to statute and results in a loss of revenue.

Correctly calculate the present value of the nontaxable reversionary improvements when using the cost approach to value taxable possessory interests.

When using the cost approach to value a taxable possessory interest, the assessor incorrectly calculates the present value of the reversion for the improvements. For example, for a taxable possessory interest with 28 years remaining on the stated term of possession, the assessor calculates the value of the reversion for the improvements using the original stated term of 30 years and then determines the present value of the reversion for the improvements using the discount factor for the remaining term of 28 years; the resultant value is then deducted from the current market value of the improvement to arrive at the taxable possessory interest value of the improvements.

According to AH 510, the assessor should determine the value of the reversion at the end of the remaining stated term of possession, in this case, at the end of 28 years. Then, using the discount factor for 28 years, the assessor should calculate the present worth of the value of the reversion for the improvements. This present value of the reversion is then deducted from the combined value of the taxable possessory interest in the land and the current market value of the improvements to arrive at the total value of the taxable possessory interest. The assessor's current procedure results in incorrect assessments for taxable possessory interests.

Deduct allowed expenses from gross income when valuing taxable possessory interests by the direct income approach.

In some instances, the assessor uses a discounted cash flow analysis to determine the assessed value of a taxable possessory interest. In her cash flow analysis, the assessor is not correctly deducting operating expenses paid by the lessor from the gross income. The assessor first determines the present value of each year's income; any operating expenses incurred by the lessor are deducted from each year's present value. The values from each year are then added together to arrive at the value of the taxable possessory interest.

When valuing a property by the income approach, Rule 8(c) provides that the amount to be capitalized is the net return a reasonably well informed owner or buyer may anticipate on the valuation date. Net return is the difference between gross return and gross outgo. Gross return means any money that the property will yield over and above vacancy and collection losses. Gross outgo means any outlay of money expended by the property owner to develop and maintain the estimated income.

The assessor's method of deducting expenses from the indicated present value of the income does not follow accepted appraisal practice and results in erroneous values for these taxable possessory interests.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three

mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

Shasta County has no assessable petroleum or high temperature geothermal properties.

Unpatented Mining Claims

According to BLM records, there are about 200 active mining claims located in Shasta County. The assessor has grouped the mining claims into appraisal units when appropriate to do so, leading to about 60 appraisal units.

The primary method used by the assessor to value unpatented mining claims is to capitalize the future maintenance payments and enroll that value. The assessor assumes a reasonably anticipated term of possession of 50 years. Adjustments are made for association claims and for multiple claims within an appraisal unit. Since there has been no active market producing comparable sale prices, the income approach is the most practical method. There has been only one sale of a mining claim in recent history.

The assessor compares annual information reported by the BLM to county recordings in order to identify mining claims and to keep the listing of claims current.

There are no recommendations regarding unpatented mining claims.

Mining Property

Mining properties are appraised by a Senior Specialist Real Property Appraiser. We found two areas in which the assessment of this type of property could be improved.

RECOMMENDATION 10: Improve the mineral assessment program by: (1) matching reserves to the time frame of the present value calculation, and (2) calculating the current market value of the appraisal unit to measure value declines.

Match reserves to the time frame of the present value calculation.

The expected life of a mineral property is estimated by dividing the estimated reserves by the anticipated annual production. Several of the properties located in Shasta County have reserves that exceed the typical 30 to 50 year time frame used in discounted cash flow analysis to determine value. Nonetheless, for valuation purposes, the assessor has limited the life of these properties at 30 to 50 years and estimated the value of the property on this basis.

At discount rates typical for mining properties, the present worth of cash flows expected to be received beyond 30 years represents a very small amount compared to the present worth of cash flows expected to be received during the first 30 years. This principle is based on the time value of money and the nature of the discounting process.

According to Rule 469(e)(2)(A)(1), reserves are what can reasonably be expected to be produced during the time the right to produce is exercisable. If for purposes of making valuation calculations the assessor chooses to shorten the time frame for the discounted cash flow analysis, this also should be the time frame used to determine the quantity of reserves. In several cases, for purposes of estimating depletion, the assessor used a quantity of reserves significantly greater than the quantity used in the discounted cash flow analysis. This practice significantly underestimates the depletion value per unit of production used to adjust the base year value and, therefore, leads to adjusted base year values that are higher than they should be.

New reserves should be added each year. The new reserves should be added at the current market value of the mineral right. Guidelines for this procedure are set forth in Rule 469(e)(2)(A)(3).

Calculate the current market value of the appraisal unit to measure value declines.

The assessor does not determine the current market value of the appraisal unit and compare it to the adjusted base year value in order to measure a possible decline in property value.

Rule 469(e)(2)(A)(1) requires that the current market value of the appraisal unit be calculated each year, so that it can be compared to the adjusted base year value of the appraisal unit as required by Rule 469(e)(2)(C). Reviews of the mining worksheets used by the assessor indicate that the current market value of the mineral rights is not determined and, therefore, the current market value of the appraisal unit has not been determined.

Many of the county's mineral properties values are determined using the royalty method. Based on our review, it appears the royalties on several of the properties do not escalate. While not common 20 years ago, recent low levels of inflation and decreased demand for aggregate products make this a possibility. Because the royalty rates do not escalate, the current market value of these properties will generally be lower than their adjusted base year value. The assessor's practice results in overassessment of these properties.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business equipment, as well as assessing manufactured homes, aircraft, and vessels.

As of the date of this survey, the assessor's staff assigned to the business property division consisted of one senior supervising auditor-appraiser, four auditor-appraisers, and three clerks. These staff members were under the direction of the deputy assessor of valuation.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer had assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

As noted previously, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 40 audits per year hereafter. For the 2009-10 roll year, the assessor completed 27 audits and for the 2008-09 roll year, the assessor completed 67 audits. The assessor believes the 2008-09 audits count towards the requirements for the 2009-10 audits. Taken together, the assessor completed 94 audits in a two-year period. Based on the above statistics, it appears the assessor will comply with the newly defined number of audits required by section 469.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed-time period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor requests waivers of the statute of limitations from taxpayers when she anticipates an audit will not be completed in a timely manner. We sampled a number of waivers on record and found them to be adequately prepared and the process well managed.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We sampled several recently completed audits and found that the assessor verifies leased equipment and construction in progress, accounts for supplies, and properly classifies equipment during the audit process. In addition, we reviewed the assessor's application of roll corrections to reflect audit findings. When correcting for multiple-year audit findings, the assessor properly enrolls roll corrections for each year in which the escape assessment took place pursuant to section 533. Overall, the assessor's audit program is effectively managed. However, we found two areas needing improvement.

RECOMMENDATION 11: Improve the audit program by: (1) conducting a situs inspection when performing an audit, and (2) using a comprehensive audit checklist as a standard component of the audit.

Conduct a situs inspection when performing an audit.

The audits reviewed did not include a situs inspection. A situs inspection is an essential aspect of any complete audit. An inspection should be a standard procedure for audits, especially for audits involving large commercial and industrial operations or in situations involving excess capacity, functional obsolescence, idle plants, and other special circumstances. Per Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), a physical inspection is a fundamental component of the audit process and can be a pivotal step in reaching an informed value conclusion. An inspection contributes to the audit in the following ways: (1) confirms the existence and location of the property, (2) confirms the correct classification of the property, (3) verifies the condition of the property, (4) verifies that all property is recorded on the books and reported on the business property statement, (5) verifies that all property on the books actually exist at the location, and (6) verifies that the valuation of the property as a whole is reasonable and accurate. By foregoing the physical inspection of the property, the auditor risks missing assets that have dropped from the books and cannot gain a full understanding of the overall condition of the taxable property.

Use a comprehensive audit checklist as a standard component of the audit.

During our review of sampled audits, we could not determine the scope of the assessor's audits because audit checklists were not included in the workpapers. According to AH 504, an audit checklist is vital for an audit to be thorough and complete. Audits require certain basic information in the workpapers that support and summarize the audit. An audit should include the following: (1) a table of contents, (2) a summary of findings, (3) an audit checklist, (4) a written narrative summarizing the events and audit process, and (5) other workpapers. An audit checklist can serve to remind auditor-appraisers of the various issues to research and procedures to follow during an audit. It may also provide an outline of topics and pertinent issues covered in the audit. Furthermore, it serves as a useful research tool when preparing for subsequent audits of the same entity. Without a comprehensive audit checklist, it is difficult for anyone reviewing the audit to know what topics were covered during the course of the audit and whether the findings are sufficiently supported.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

Workload

The following table displays the assessor's workload of secured and unsecured property statements and assessments for the 2010-11 roll year:

PROPERTY STATEMENTS	TOTAL	SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
General Business	5,138	\$450,951,612	\$464,236,588	\$915,188,200
Agricultural	223	\$9,122,244	\$7,289,668	\$16,411,912
Apartments	101	\$2,163,310	\$10,000	\$2,173,310
Direct Billing	75	\$503,160	\$254,595	\$757,755
Financial	294	\$3,662,064	\$12,074,233	\$15,736,297
Leased Equipment	253	\$0	\$31,960,134	\$31,960,134
Service Stations	87	\$15,129,569	\$4,919,330	\$20,048,899
Other	7,764	\$0	\$145,104,872	\$145,104,872
Total	13,935	\$481,531,959	\$665,849,420	\$1,147,381,379

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. In addition to taxpayer self-reporting, the assessor reviews fictitious business name filings, city business licenses, real property appraiser referrals, landlord reports of tenants, business directory services, sales tax permits, and BOE notifications. We found the assessor employs effective methods for discovering business personal property.

General Statement Processing

Once completed BPSs are submitted, clerks begin the process by date stamping and screening the BPSs for completeness and the inclusion of an authorized signature. Sufficiently completed BPSs are then batched for valuation. BPSs without an authorized signature are returned to the property owner along with a letter indicating the reason for the BPS's rejection. Once screened and batched, BPSs are forwarded to an auditor-appraiser. A referral slip and a copy of Schedule B of the BPS are forwarded to the real property section in an effort to coordinate the valuation process between the two departments to avoid double assessments.

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, application of penalties, the presence of authorized signatures, and real property division coordination. The BPSs sampled evidenced the proper usage of Board-prescribed forms, were completed in sufficient detail, and were properly signed.

Filing Procedures

Our review included verifying the assessor's procedures for processing late and nonfiled BPSs. We found the assessor applies the late filing penalty in accordance with section 463 and estimates assessments in accordance to section 501 for nonfilers. Pursuant to section 441, the assessor requires owners of aircraft and vessels costing more than \$100,000 and nonprofit organizations to file a BPS. Taxpayers are encouraged to complete the change in ownership portion of the BPS and staff follows up on any reported changes.

The assessor reports that approximately 760 statements are filed electronically. Every business property account is assigned an arbitrary business identification number created through the assessment system to authenticate signatures.

Direct Billing

Many assessors utilize an assessment procedure known as "direct billing" or "direct assessment." It is a method of assessing qualified low-value business accounts without the annual filing of a BPS. The assessor establishes an initial value and continues the value for several years. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff, which increases the time available for the auditor-appraisers to perform other required duties.

In Shasta County, the assessor maintained a direct billing program with 75 accounts during the 2010-11 roll year. The program is well regulated and appropriate controls are in place to reduce the chance of escape assessments. One such control is the assessor's requirement that participating businesses file a BPS every three years to update taxable equipment information.

Summary

Overall, the assessor's BPS processing program is effectively administered. The procedures in place are well structured and ensure that all BPSs are properly reviewed.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

The assessor uses AH 581 and California Assessors' Association (CAA) business assessment factors to value assessable equipment. Additionally, when there is compelling information available regarding equipment values, that information is utilized by the assessor if it provides a better indicator of value than BOE or CAA factors. We reviewed a variety of business equipment assessments, including retail and service businesses, industrial operations, and medical offices. We found the assessor uses acceptable methods of valuing business equipment.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

For the 2010-11 roll year, there were approximately 2,736 manufactured homes located in 100 parks. These homes had a total assessed value of \$32,811,413. In addition, the roll included 2,273 manufactured homes situated on land owned in fee with a total assessed value of \$33,882,699. There are no resident-owned parks in Shasta County.

When a taxpayer owns only the manufactured home and not the land upon which it is located, the manufactured home is identified with a "910" prefix in the assessor's assessment system. When a taxpayer owns both the manufactured home and the land upon which it is located, the manufactured home is assessed as personal property on the taxpayer's secured assessment.

There are an additional 2,512 manufactured homes in the county that have been attached to permanent foundation systems in compliance with the Department of Housing and Community Development (HCD). These homes are considered improvements for property tax purposes and are assessed on the secured roll.

The assessment of manufactured homes in Shasta County is the primary responsibility of one appraiser, with the exception of manufactured homes in remote areas that are covered by several rural area appraisers. The appraisers use the National Automobile Dealers Association *Manufactured Housing Cost Guide* (NADA) and Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), to value manufactured homes.

The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic HCD listings. These printouts list the grantor's and grantee's names, date of purchase, purchase price, decal number, date of manufacture, and manufacturer's name. Other discovery sources utilized by the assessor are the dealer reports of sale, contacts from previous or current owner(s), building permits, and field inspections.

The assessor's assessment system tracks manufactured home values for decline-in-value purposes. The assessor adjusts manufactured home values based on an annual manufactured home study. The study uses the NADA guide, January through April edition, with consideration given to make, model, square footage, single or double-wide design, age, and built-in features. In

recent years, the study has consistently indicated depreciation. The lower of the factored base year value or current market value of the manufactured home is automatically enrolled each lien date. These enrollments satisfy the annual decline-in-value review.

We reviewed a number of manufactured home assessments, including transfers and new installations of manufactured homes. The assessor's manufactured home program is well administered. The discovery procedures are good, and new construction and accessories are assessed and classified properly. The program for valuing manufactured homes is effective and conforms to statutory provisions.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business, but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

In Shasta County, a senior supervising auditor-appraiser is responsible for aircraft valuations. The assessor discovers aircraft through airport operators' reports, referrals from other counties, BOE sales tax inquiries, newspaper and Internet articles, section 469 audits, and Federal Aviation Administration reports.

The following table sets forth a breakdown of aircraft enrolled in Shasta County for the 2010-11 roll year:

AIRCRAFT TYPE	ASSESSMENTS	ASSESSED VALUE
General Aircraft	251	\$40,978,710
Commercial Aircraft	5	\$5,872,970
Historical Aircraft	7	\$364,710
Fractionally Owned Aircraft	18	\$452,330
Total Aircraft	281	\$47,668,720

Each year, the assessor mails BOE-577, *Aircraft Property Statement*, to the known owner of each aircraft in the county requesting current information. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The assessor uses the *Bluebook* to value aircraft. *Bluebook* values are adjusted for average condition, engine hours, added equipment, and sales tax.

We reviewed several general aircraft records for valuation methodology, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines set forth in the Assessors' Handbook Section 577, *Assessment of General Aircraft*, and Letter To Assessors No. 97/03.

Fractionally Owned Aircraft

Fractionally owned aircraft are fleets of aircraft managed and maintained by an operating company where ownership is distributed on a fractional basis similar to a timeshare in real property. The management company handles all operating requirements of the aircraft, including availability, maintenance, billings, shareowner usage, training, and flight crews.

Pursuant to section 1161, fractionally owned aircraft are assessed on a fleet-wide basis to the manager in control of the fleet. Like certificated aircraft, fractionally owned aircraft are assessed on an allocated basis using an "allocation factor." This allocation factor is a fraction, the numerator of which is the total number of landings and departures made by the fleet type in the county during the previous calendar year, and the denominator of which is the total number of landings and departures made by the fleet type worldwide during the previous calendar year.

Section 1162 contains a provision for the appointment of a lead county assessor's office to facilitate property reporting, allocation calculations, the transmittal of allocated values to other jurisdictions where situs has been established, and provide for coordinated multi-county audits.

We reviewed the assessor's procedures for the valuation of fractionally owned aircraft. Shasta County does not serve as the lead county for any fractionally owned fleets. A sampling of fractionally owned aircraft property statements filed showed that allocated values were accurately calculated based on arrivals and departures in the county in accordance with section 1161.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time, and the number of arrivals and departures during a representative period (designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

The assessor valued four commercial air carriers for the 2010-11 roll year. The senior supervising auditor-appraiser is responsible for certificated aircraft appraisal functions, processes the annual business property statements, and calculates the pro-rated value according to the methodology set forth in section 401.17. Appraisals of this type are predicated upon the reported costs indicated on the air carrier business property statements and indicated wholesale values from the *Airline Price Guide*. To derive a pro rata estimate of the certificated aircraft value, the senior supervising auditor-appraiser applies the percentage of time the aircraft is situated in Shasta County based upon a one week sample, including both ground time and air time, to the airline's total audited fleet estimate of value.

We reviewed the assessor's certificated aircraft appraisal procedures, in addition to a sample of processed air carrier business property statements, and found the program to be correctly administered and values accurately calculated pursuant to section 401.17.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as: (1) an aircraft that is an original, restored, or replica of a heavier than air powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed.

There were seven historical aircraft assessed for the 2010-11 roll year in Shasta County with a total value of \$364,710. The assessor properly obtains signed affidavits in the format prescribed by the BOE and obtains certification of attendance for historical aircraft exemptions claimed within the county pursuant to section 220.5(c). We reviewed several historical aircraft assessments and exemption claims. We found the assessor has properly granted the exemption when legal requirements were met.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.

An auditor-appraiser is responsible for vessel related property statements and assessment duties. In Shasta County, the assessor's primary sources for the discovery of vessels are DMV reports, marina moorage listings and field inspections, referrals from other counties, and information from vessel owners themselves.

The following table sets forth the vessel assessment data in recent years:

ROLL YEAR	PLEASURE VESSELS	ASSESSED VALUE	DOCUMENTED VESSELS	ASSESSED VALUE
2010-11	7,507	\$92,557,170	1	\$76,460
2009-10	7,687	\$111,866,120	0	0
2008-09	7,915	\$115,678,960	0	0
2007-08	7,630	\$109,460,470	0	0
2006-07	7,347	\$102,293,910	0	0

The assessor primarily uses the *ABOS Marine Blue Book* and the National Automobile Dealers Association *Marine Appraisal Guide* (NADA) to value vessels. If current or reliable information is not available in the published value guides, the assessor may use the values of similar vessels within the assessor's database or the Internet to obtain current, comparable sales data. For vessels not new to the county, values are derived from an annual study of vessels in Shasta County and corresponding depreciation factors.

In a sample of vessel property statements reviewed, we found that appropriate valuation methods were employed, including adding sales tax and delivery charges and adjustments for condition and additional equipment. We found that procedures for processing and assessing vessels were adequate. However, we also found that the assessor uses a county-developed vessel form for vessels new to the county, as well as for vessels valued at \$100,000 or greater. We found one area in need of improvement.

RECOMMENDATION 12: Improve the vessel assessment program by using Board-prescribed form BOE-576-D, *Vessel Property Statement*.

The assessor uses a county-developed form, *Shasta County Vessel Owner's Statement*, in lieu of Board-prescribed form BOE-576-D, *Vessel Property Statement*, for vessels that are new to the county and for vessels valued at \$100,000 or greater. Pursuant to Letter To Assessor No. 2004/049, a county may develop a form for use in their county for a specific use. However, a county may not use a county-developed form if there is a Board-prescribed form available. In other words, if a Board-prescribed form is available, that form must be used. Using county-developed forms in lieu of Board-prescribed forms could mislead property owners and create confusion about current procedures and filing requirements.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Shasta County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck

Supervising Property Appraiser

Survey Team Leader:

Ronald Louie

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Margie Wing

Senior Specialist Property Appraiser

Art Tenneson

Associate Forest Property Appraiser

Andrew Austin

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Julie Warren

Associate Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Ladeena Ford

Business Taxes Specialist II

Paul Stueber

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁷ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The BOE's County-Assessed Properties Division (CAPD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁸

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

Base year properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁷ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁸ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

New construction. Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

Non-Proposition 13 properties. Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, Timberland Production Zone property, and taxable government-owned property.

Unsecured properties. Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, that is, the "unexpanded" sample, to over-represent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? Was there a decline in value?

New construction -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? Do we concur with the value enrolled? Was the base year amount trended forward properly (for the allowed inflation adjustment)? Was there subsequent new construction? Or, was there a decline in value?

Non-Prop 13 properties -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the CAPD. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the Board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting audits in accordance with Revenue and Taxation Code section 469.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.

- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Shasta County Assessor's response begins on the next page. The BOE has no comments on the response.



Shasta County

OFFICE OF THE ASSESSOR-RECORDER

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SEP 24 2012

County-Assessed Properties Division
State Board of Equalization

LESLIE MORGAN, ASSESSOR-RECORDER

1450 Court Street, Suite 208-A, Redding, CA 96001-1667

TEL: (530)225-3600 FAX: (530)225-5673

Intra-County Toll Free: 1(800)479-8009

Calif. Relay Service at 711 or 800-735-2922

<http://www.co.shasta.ca.us/Departments/AssessorRecorder>

September 18, 2012

Dean R. Kinnee
Chief, County-Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

In accordance with Government Code Section 15645, I am providing the following response to the Assessment Practices Survey for Shasta County. Please include my response in your final published report.

I wish to express my appreciation to the BOE survey team for the professional and courteous manner in which they performed their duties. I welcome and appreciate their suggestions for improvement and constructive comments regarding our processes and practices.

I believe the State's Report reflects the hard work and dedication my staff provides to the citizens of Shasta County. We strive to provide a fair, accurate and equitable assessment roll. I would like to applaud the staff of the Shasta County Assessor's Office for their service to the public during a time of significant reductions in the values.

Sincerely,

Leslie Morgan
Shasta County Assessor-Recorder

LM:ems

Encls

Shasta County Assessor
Responses to State Board of Equalization
Assessment Practices Survey Report
June 2012

Recommendation 1: Expand and enforce procedures for the assessment of staff-owned property.

Response: We agree and are working in coordination with the County Personnel Department on the proper implementation of this recommendation.

Recommendation 2: Instruct applicants to return the withdrawal letter directly to the clerk of the assessment appeals board (AAB).

Response: We agree and have implemented this recommendation.

Recommendation 3: Improve the administration of the church and religious exemptions by: (1) granting the church exemption only for religious worship and church parking, (2) mailing church exemption claim forms and religious exemption notices prior to January 1 to people who received the exemptions in the previous year.

Response: We agree and will comply with both recommendations.

Recommendation 4: Issue finding sheets to claimants if a portion of the property is denied the welfare exemption.

Response: We agree and have implemented this recommendation.

Recommendation 5: Conduct field inspections on all first-time filing claims and claims filed for new locations.

Response: We agree and will improve our field inspection records.

Recommendation 6: Improve the administration of the disabled veterans' exemption program by: (1) requiring the claimant provide a copy of the original dated award letter from the USDVA, and (2) reviewing the award letter carefully to determine the effective date that qualifies the claimant for the exemption.

Response: We concur with the recommendation.

Recommendation 7: Improve the new construction program by: (1) assessing all well bores and casings to land, and (2) documenting the source of costs used in the appraisal of new construction when using the cost approach.

Response (1): The assessor respectfully disagrees with the position of the BOE. We believe that well bores and casings are reasonably manifested by outward appearances as improvements. In addition, the allocation of these values to improvements aides in comparable analysis which may be made between otherwise like type properties.

Response (2): We agree and will comply with the recommendation

Recommendation 8: Improve the TPZ property program by: (1) periodically sending questionnaires to all owners of TPZ properties to discover nonexclusive compatible uses, and (2) using the correct discount rate when valuing TPZ land subject to rezoning.

Response: We agree and have implemented these recommendations.

Recommendation 9: Improve the taxable possessory interest program by: (1) reappraising taxable possessory interests in compliance with section 61, (2) properly calculating supplemental assessments for taxable possessory interests, (3) correctly calculating the present value of the nontaxable reversionary improvements when using the cost approach to value taxable possessory interests, and (4) deducting allowed expenses from gross income when valuing taxable possessory interests by the direct income approach.

Response (1): We agree with this recommendation.

Response (2): The assessor respectfully disagrees with the position of the BOE. We feel that issuing a supplemental assessment without offsetting the new base year value against the existing roll value constitutes a double assessment.

Response (3): We agree with this recommendation.

Response (4): We agree with this recommendation.

Recommendation 10: Improve the mineral assessment program by: (1) matching reserves to the time frame of the present value calculation, and (2) calculating the current market value of the appraisal unit to measure value declines.

Response: We agree with the recommendations; however, we also recognize that the lack of sales makes it prohibitive to allocate time to the implementation of (2).

Recommendation 11: Improve the audit program by: (1) conducting a situs inspection when performing an audit, and (2) using a comprehensive audit checklist as a standard component of the audit.

Response: We agree and have implemented the recommendations.

Recommendation 12: Improve the vessel assessment program by using Board-prescribed form BOE-576-D, Vessel Property Statement.

Response: We agree and have implemented this recommendation to utilize the BOE-576-D Vessel Property Statement for annual filers. The form we use as an initial request for information and for the original assessment is a Vessel Owner's Report. The Board-prescribed form BOE-576-B1 Vessel Owner's Report is no longer available. We will be reviewing our processes to determine if the Vessel Property Statement is a viable alternative to our Vessel Owner's Report.